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OCI NO.7903

2 July 1954

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# CURRENT INTELLIGENCE WEEKLY



DOCUMENT NO. 10  
NO CHANGE IN CLASS. ☐  
☐ DECLASSIFIED  
CLASS. CHANGED TO: TS S 01987  
NEXT REVIEW DATE: 7-25-76  
AUTH: HR 702  
DATE: 7-25-76 REVIEWER:

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CENTRAL INTELLIGENCE AGENCY

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*3-228508*

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JAPANESE BLAME ECONOMIC ILLS ON THE UNITED STATES . . . Page 15

Japanese officials have recently blamed their country's economic difficulties on the United States. At the same time, while delaying decisive action on a program of domestic austerity, they are vigorously soliciting American aid to counter a serious economic decline.

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## THE SOVIET WORLD

Three different sets of negotiations on Indochina were under way during the past week: restricted sessions of all nine participants at Geneva on the question of armistice supervision; military talks between the belligerents; and private conversations between the Communist delegates and French, Laotian and Cambodian representatives.

The restricted sessions made no further progress toward agreement on creating machinery for supervising an armistice, and there is no reliable information with respect to the military talks. The Communists evidently enjoyed much greater success, however, in their direct talks with French Union delegates. The most important of these talks were Chou En-lai's conversation with Premier Mendes-France in Bern on 23 June and continuing conversations between the Viet Minh representative and French, Laotian and Cambodian delegates at Geneva.

The pattern of an Indochina settlement emerging from these talks seems to include a partition of Vietnam on terms favorable to the Communists, i.e., postponement of a final political agreement, which would be negotiated between the Viet Minh and the Vietnamese; neutralization of Laos, with the Communists retaining some part of the territory in the north they now control or joining a coalition government; and neutralization of Cambodia, with some form of recognition being accorded the "resistance movement" there.

The major Communist aims regarding settlements in Laos and Cambodia appear to be to frustrate possible Western plans to include these countries in a Southeast Asian defense system and to block the establishment of American bases and training missions in their territory. Pravda stressed that in the agreement to open military talks on Laos and Cambodia, the clause prohibiting the entry of military personnel and materiel reinforcements into these countries after the cease-fire is of particularly great importance. Evacuation of foreign military personnel, said Pravda, "will lead to the removal of the screen used to conceal American involvement."

The private conversations between the Communists and French Union delegates have apparently gone so smoothly that there is speculation that a settlement will be reached, and that the Geneva conference will merely be called upon to endorse it.

Moscow on 24 June reacted to the Chinese Nationalists' seizure of the Soviet tanker Tuapse with a strong note of protest charging the United States with sole responsibility. While the note contained no specific threat, there was a warning that the Soviet Union would be forced "to take appropriate measures" to guarantee the safety of merchant vessels in the region. The Chinese Nationalists have announced that the Tuapse will be released after her cargo has been unloaded.

In the USSR, the Kremlin leaders at a plenum of the central committee of the CPSU on 24 June re-emphasized their continuing concern with agricultural problems by adopting a lengthy decree concerning the results of spring sowing and preparations for the 1954 harvest. This plenum, the seventh since Stalin's death, was apparently used, as were the earlier ones, as a forum for investing local leaders with greater enthusiasm for their difficult tasks.

In contrast to the two earlier meetings of the central committee, First Secretary N. S. Khrushchev apparently did not speak. Khrushchev has been receiving far more publicity than any other Soviet leader in the last month--publicity which continued up to 18 June in reports of the activities of the Soviet delegation at the Czechoslovak party congress. In view of his public leadership of agriculture and the fact that two earlier decrees adopted by central committee meetings were modeled on reports which he gave to the sessions, his failure to report to this session may be an indication that publicity for him as an individual leader is on the wane.

In Stockholm, during secret sessions of the recently concluded "Congress for Relaxation of International Tension," the 250 delegates adopted a number of resolutions which supported the Soviet line on all major international issues. Moscow played the role of interested observer at the conference, and Soviet propaganda went to great lengths to emphasize that it was not a "Communist meeting." This tactic continues recent Soviet efforts to win support for the Soviet peace offensive by using "spontaneous" declarations of "non-Communist" groups.

## NEW POLITICAL CRISIS DEVELOPING IN IRAN

An accelerating political deterioration in Iran seriously threatens the government of Prime Minister Zahedi. Whether Zahedi can remain in office until an oil settlement is ratified by the Majlis is problematical. His government has little chance of surviving much beyond that time, and a period of prolonged political crisis is in prospect.

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25X1 [redacted] the shah has assured Henderson that he would continue to support Zahedi, the monarch's deep-seated fear of strong prime ministers suggests that his support will be sporadic and unenthusiastic. He is already giving some encouragement to opposition groups, and will probably dismiss Zahedi as soon as he dares.

The Zahedi government virtually dictated the results of the recent parliamentary elections. Nevertheless, opposition groups quickly formed in the Majlis and Senate, where they may be able to command majorities. Two major mutually antagonistic groupings have already begun anti-Zahedi campaigns. One is dominated by reactionary aristocrats, the other by formerly pro-Mossadeq nationalists. They could combine at any time for the limited objective of bringing down the government.

The right-wing group is concentrating its attacks on alleged widespread corruption in the Zahedi regime and has thus provided the shah with support for his favorite argument against Zahedi--although the group itself includes some of the most notorious demagogues of the Majlis. Dr. Manuchehr Eqbal, long a protégé of former prime minister Qavam and high on the shah's list of potential prime ministers, is the most likely candidate of this group for prime minister. Eqbal's influence seems to have declined somewhat in recent weeks, but it could be resuscitated by open support from the shah or transferred to a temporary ally in opportunistic collaboration.

The nationalists in the Majlis--formerly supporters of Mossadeq--are openly seeking to assume leadership of a revived national movement. Directed by a small group of progressive intellectuals, they have ties with the two most influential Tehran clerics, Imam Behbehani and Ayatollah Kashani. They publish a weekly news organ, Roshanfekr. The candidate of this group for the premiership seems to be Dr. Mohammed Sajadi, who incurred the enmity of many members of the present parliament by once compiling a list of corrupt politicians.

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Approved For Release 2004/06/24 : CIA-RDP79-00927A000300100001-9

In addition to attacking the high cost of living, the nationalists appeal to anti-British sentiment. Their narrow interpretation of the oil nationalization law portends trouble for any oil settlement, and raises the threat of repudiation even if a settlement is ratified.

Signs exist of a working alliance between this group and the underground pro-Mossadeq National Resistance Movement, whose strength is rapidly increasing. The Movement has its own candidate for prime minister--Allahyar Saleh, founder of the Iran Party and Mossadeq's ambassador to the United States. Hoseyn Makki and Third Force leader Khalil Maleki are reported to maintain the Movement's liaison with the nationalists in parliament.

The strong bid for power of retired general Hassan Arfa appears to have some support from every political quarter. [REDACTED]

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[REDACTED] Eqbal's presence in the Arfa cabal suggests that the right-wing parliamentary group might support it. Eqbal, on the other hand, may hope to become a civilian alternative to Arfa, potentially too strong a prime minister for the shah's liking.

Mozzafar Baghai's Workers Party and Mostafa Kashani, son of the Ayatollah, bring some nationalist support to Arfa's cause. Its most active promoters, however, are anti-Zahedi army officers, principally Chief of Staff Batmangelitch and his former deputy, General Akhavi.

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Zahedi purports to be aware of the intrigues against him.

[REDACTED] and he has made some effort to repair his political fences.

The tempo of opposition activities has so accelerated in the past few weeks that even the military governor of Tehran, formerly one of Zahedi's staunchest supporters, now doubts the government can hold on until an oil settlement is concluded. [REDACTED]

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As a last resort, the prime minister is understood to be planning an appeal to the army to sustain him in power. This would probably be futile; two strong anti-Zahedi officer cliques have long been active. No significant army group can be expected to act in contravention of the shah's wishes.

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## NEW FINNISH GOVERNMENT MOVING TOWARD STRICTER NEUTRALITY

Two months after taking office, the Finnish coalition government of Premier Toerngren continues to follow the moderate domestic policies of its predecessor. There have, however, been some indications that the government is moving cautiously away from the Soviet domination of Finnish foreign relations which characterized the postwar years.

Premier Toerngren, a member of the Swedish People's Party, has sought to bridge the sharp differences between the Agrarian and Social Democratic members of his coalition on such economic issues as a general wage increase, land appropriation and enlarged expenditures for social services. The government is relatively stable, and no test of strength is likely before parliament reconvenes next fall. In any event, the non-Communist parties do not welcome the prospect of caretaker and minority governments such as were in power prior to the March 1954 election.

All Finnish parties agree on the need for good relations with the USSR, and the government can be expected to refrain from any action which would arouse Soviet suspicions that it is aligning Finland with the West. The presence of Agrarian ex-premier Kekkonen in the cabinet as foreign minister is probably intended to assure Moscow on this score as well as to offset the participation in the government of several strongly anti-Soviet Social Democratic leaders.

The new emphasis on strict neutrality is seen largely in gestures toward strengthening ties with Sweden. In his initial statement in early May, Premier Toerngren said his government placed special importance on relations "with the other Nordic countries, and particularly with Sweden." At the same time, Toerngren acknowledged that Finland's foreign policy was influenced by its geographic position, and by the 1947 peace treaty with the USSR and the 1948 Soviet-Finnish Treaty of Friendship and Mutual Assistance.

Meanwhile, arrests in Lapland of Finnish Communists accused of espionage indicate a tougher attitude toward the local Communists despite the possibility of Soviet protests.

## DECLINE IN SOVIET WORKER'S FOOD COSTS HALTED IN 1954\*

The decline in food costs for the average Soviet worker, which began in 1948, has come to a virtual halt. Whereas food costs fell a total of 45 percent between 1948 and 1953, the drop in food costs thus far in 1954 has been only about one percent (see table, p. 12).

The cuts in state retail prices in April 1954 were smaller and affected fewer foods than in previous years. Bread and tea were the only important items in the worker's budget included in the decree; meats, fats and oils, dairy products, vegetables and fruits were not mentioned.

Paradoxically, the halt in the decline coincides with the USSR's new economic program aimed at improving the welfare of the consumer. It was probably caused chiefly by bad weather and the resulting poor agricultural output in 1953.

The regime's current drive to expand agricultural output may have contributed to stopping the decline. Procurement prices paid by the state to collective farms and peasants for potatoes, vegetables and livestock were raised recently, and the government may therefore have been reluctant to further lower the retail prices of these products. In addition, the regime probably desired to avoid intensifying the shortages of foodstuffs in state stores and increasing black-market activity. Since free market prices did not fall in 1953 despite substantial cuts in state retail prices, the lowering of state food prices again in 1954 would probably have increased the spread between state and free market prices.

The fact that this year's price reduction decree omitted the usual data on benefits which consumers are supposed to realize through the decree's indirect effect on free prices suggests that Soviet leaders expect that these prices will not fall significantly during the rest of 1954. The leaders have claimed that former price reductions resulted in very large gains to the public through lower prices in the free markets, and these claims are generally supported by available evidence for the years 1948 through 1952.

Recent government measures which have expanded consumer purchasing power--apparently as a means of raising production--may also have helped cause the leveling off of food prices.

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\*Based, in part, on a study by the Office of Research and Reports.

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In 1953, for the first time in recent years, the government significantly increased take-home pay--primarily by reducing workers' subscriptions to the annual State Loan by half--and similar action was taken in 1954. By contrast, between 1948 and 1953, the money incomes of Soviet workers remained fairly steady, and real incomes rose primarily through price reductions.

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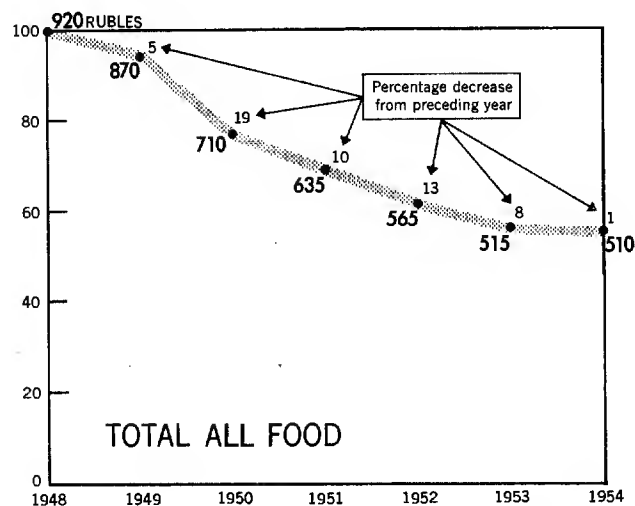
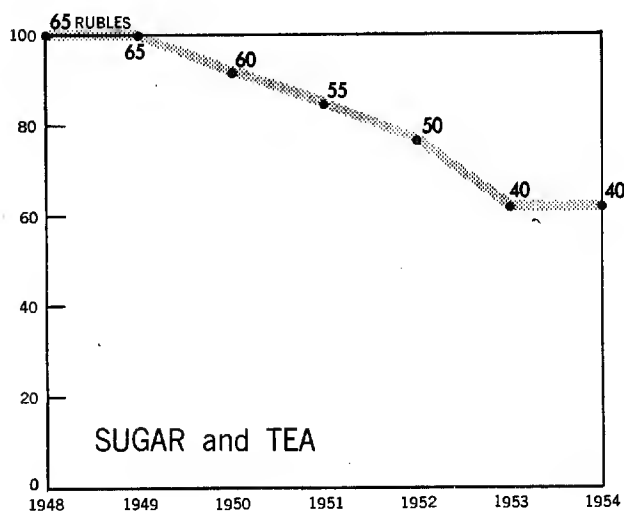
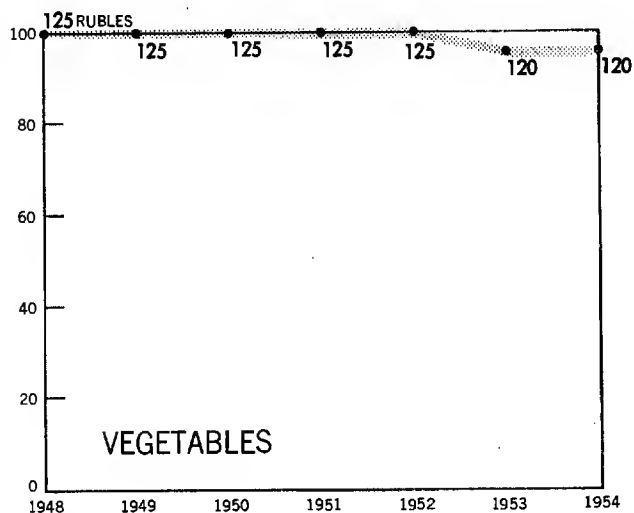
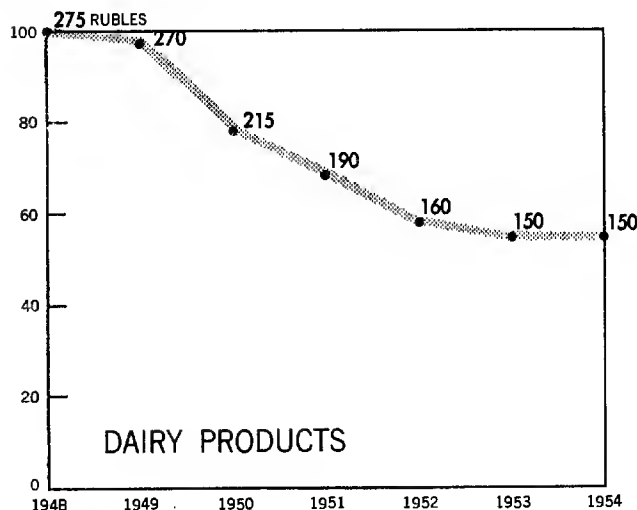
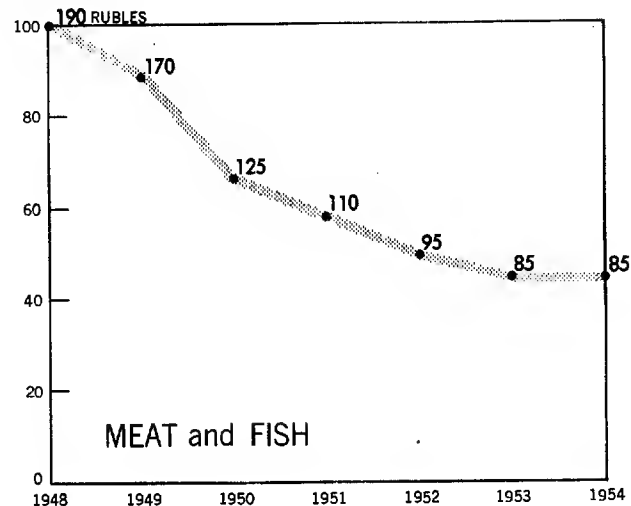
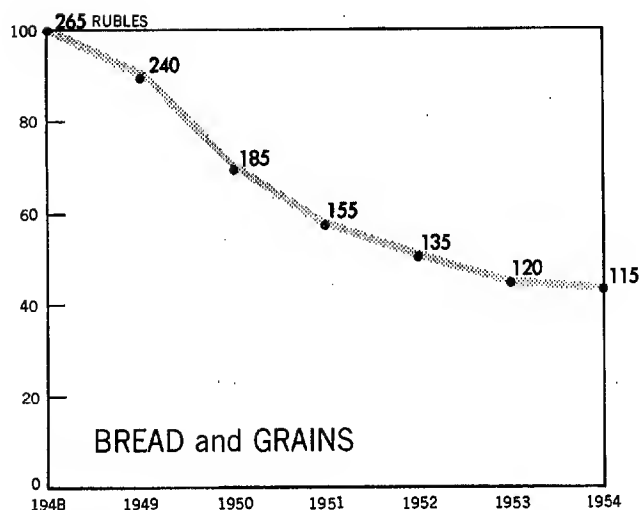
USSR

# MONTHLY COST OF FOOD TO WORKER'S FAMILY

1948 through 1954

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(1948 EQUALS 100)



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SOVIET CONTROL OF EASTERN EUROPE UNIMPAIRED  
BY POLITICAL CHANGES UNDER "NEW COURSE"

During the past year, numerous political adjustments have been made in Eastern Europe to facilitate carrying out the individual Satellites' versions of the "new course" initiated by the USSR. The Soviet-Satellite relationship, however, remains unaffected. Although Moscow has made minor concessions to Satellite nationalism, it has not relaxed its control which not only remains firm but is continually being improved.

All the Satellites have reorganized their government and party structures in general conformity with changes made in the USSR and have ostensibly adopted the Soviet principle of collective leadership. In reducing the number of government ministries, many ministers have been shifted, partly in an effort to assign the most highly qualified men to positions where their skills can be best utilized. At top party levels, the post of secretary general or chairman was abolished and replaced by a small secretariat headed by a first secretary to direct the party apparatus.

In each Satellite except Albania, the leading personality no longer holds both the top party and top government posts. The strong men in East Germany, Hungary, and Poland hold the party post of first secretary; in Bulgaria and Rumania, the government post of premier; while in Czechoslovakia it is not clear which of three individuals may be the top leader. Despite a slight broadening of the power apex in the Satellite regimes, the same key figures remain in control. The Beria affair apparently had no serious repercussions for the Satellite leaders.

Concurrently with these changes, the USSR appears to have modified its view of the control functions performed by its diplomatic and military representatives. The Soviet ambassadors to Czechoslovakia, Poland and Rumania have in the past years been replaced by men with extensive experience in party or government administration. These men are presumably better qualified than the Foreign Office specialists who preceded them to direct the Soviet program in the Satellites and to serve as channels of control. Similarly, the new Soviet military attachés assigned to all the Satellites except Czechoslovakia within the past year are highly qualified professional army officers who are believed to have more extensive combat and command experience than their predecessors.

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Some Satellite regimes have recently tried to reduce public consciousness of the presence of the Soviet overlords by appeals to nationalistic pride. In both Hungary and Poland a somewhat greater propaganda emphasis has been placed on the national culture and heritage in recent months. The granting of sovereignty to the German Democratic Republic and related actions--such as the dissolution of Soviet interests in East German companies and the abolition of the branch offices of the Soviet High Commission--while primarily attributable to Soviet foreign policy considerations, also had a positive effect on local opinion.

In contrast to these surface concessions, the USSR has not eased its real controls. There has been no reduction in the size of the Soviet occupation troops or of domestic or Russian security forces in the Satellites. More efficient economic controls are being developed through plans for the greater co-ordination of the Eastern European and Soviet economies. Several of the Satellites have recently announced that beginning in 1956 their five-year plans will be dovetailed with those of the rest of the Orbit.

Thus, there seems to be no doubt, at least for the present, of the continuing subservience of the regimes to Moscow's direction. While Satellite leaders may be concerned over possible differences among Soviet leaders in the Kremlin, this anxiety has not impaired their support of "new course" policies. Since the Satellite party congresses have endorsed the new course, and the parties are thus committed to these policies, Satellite leaders probably now feel a greater degree of personal security.

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## JAPANESE BLAME ECONOMIC ILLS ON THE UNITED STATES

High Japanese officials, including Prime Minister Yoshida, have recently blamed their country's economic difficulties on the United States. While delaying decisive action on a program of domestic austerity, the Japanese are vigorously soliciting American aid to counter a serious economic decline.

Liquid foreign exchange reserves, indicative of the status of Japan's all-important foreign trade, were only about \$106,000,000 above the \$500,000,000 minimum working level in May and a \$100,000,000-200,000,000 decline is expected by next March. Despite the urgency of the situation, the government is considering relaxing its austerity program just when the desired price reductions are beginning to appear.

Instead of supporting the program, Japanese officials have blamed the United States for their difficulties. Even Yoshida recently attributed last year's economic problems to American occupation policies. In addition, the feeling has been allowed to grow among business circles that the austerity program was dictated in Washington, and the United States therefore stands to lose face if the program fails in any respect. Japan also scrutinizes American policies minutely for alleged affronts, and protests actions which admittedly are of little consequence to Japan.

Meanwhile, the government has characteristically turned to the United States for aid. A plan has also been put forward for settlement of Japan's debt for occupation aid in yen, which the United States would then use in development projects in Southeast Asia.

The Japanese have also implied that the United States is not fulfilling its "obligation" to their country. Their tactics in negotiating for aid have often been to create the impression that Japan will have been "let down" if its maximum demands are not met.

Two serious results are likely if this situation continues: (a) further co-operation between the two countries will become progressively limited, particularly as the impression spreads that the United States cannot be depended on to fulfill its "responsibilities"; and (b) the economic blandishments of the Soviet Orbit will become increasingly attractive.

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